

# **Annual Budget**

for the  
**City of Huntington Beach**

**2005/2006**  
**Fiscal Year**

submitted by  
Penelope Culbreth-Graft, DPA City Administrator

## City Council – 2005/06

Jill Hardy, Mayor

Dave Sullivan, Mayor Pro Tem

Cathy Green, Councilmember

Debbie Cook, Councilmember

Gil Coerper, Councilmember

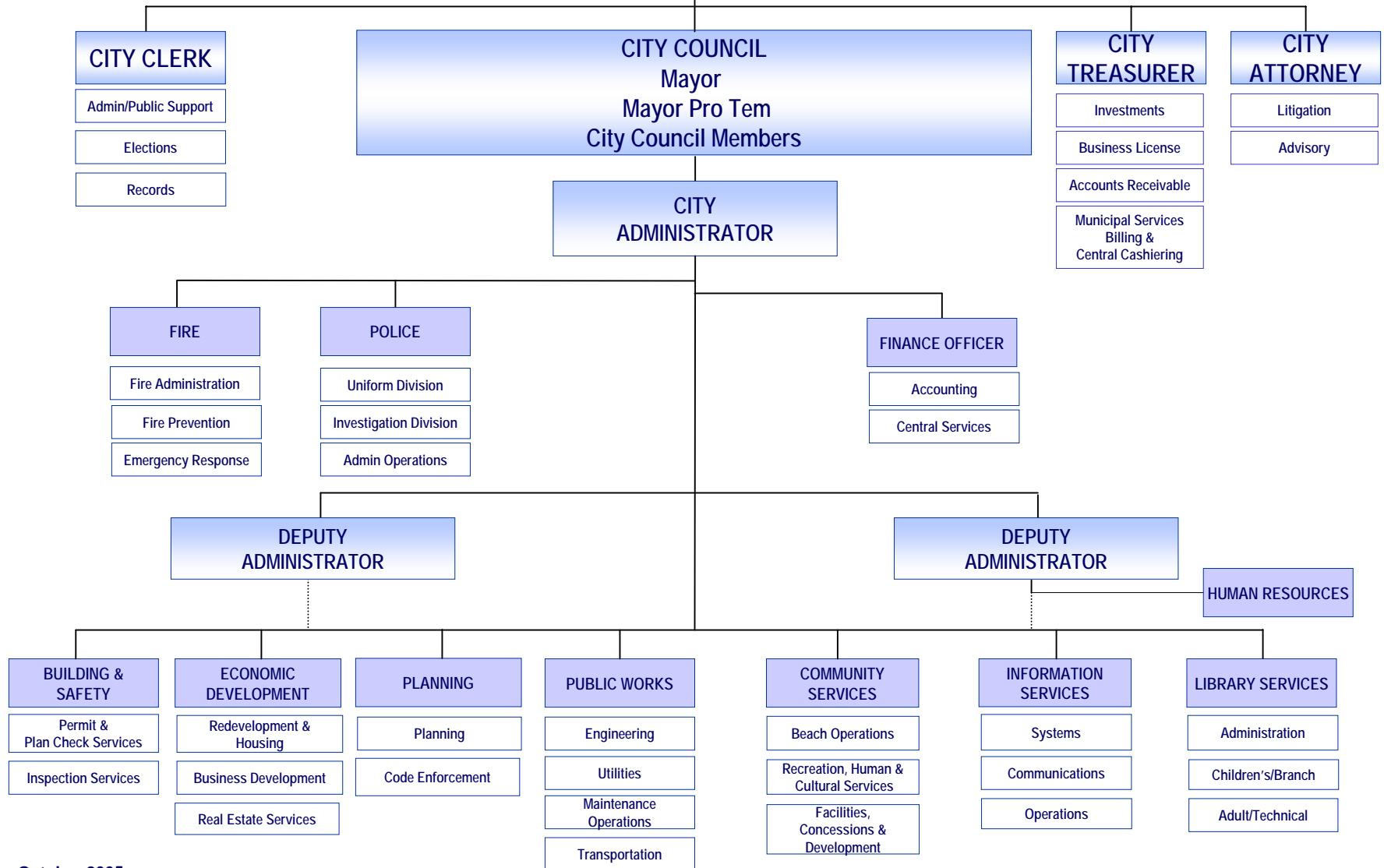
Keith Bohr, Councilmember

Don Hansen, Councilmember



# CITY OF HUNTINGTON BEACH

## THE PEOPLE





The Government Finance Officers Association of the United States and Canada (GFOA) presented a Distinguished Budget Presentation Award to the City of Huntington Beach, California for the Annual Budget beginning October 1, 2004. In order to receive this award, a governmental unit must publish a budget document that meets program criteria as a policy document, as an operations guide, as a financial plan, and as a communications device.

This award is valid for a period of one year only. We believe our current budget continues to conform to program requirements, and we are submitting it to GFOA to determine its eligibility for another award.

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# City of Huntington Beach

2000 Main Street • Huntington Beach, CA 92648

Penelope Culbreth-Graft, DPA *City Administrator*

December 2005

Honorable Mayor and Members of the City Council:

The adopted fiscal year 2005/06 budget is presented to you as the City Administrator's recommendation for the program of service for the City of Huntington Beach. The city budget totals \$329,122,806 in expenditures, including carryover appropriations from fiscal year 2004/05. This represents an all inclusive 6.9 percent increase over the previous year's budget.

Last year, many format changes were made to create a user-friendly document that provided information on how the city operates as well as easy-to-read department narratives and spreadsheets. With input from Council Members, Finance Board, and the public, new features have been added including an all-fund summary balance sheet, description of significant changes by department, and the proposed creation of a Capital Improvement Reserve.

This year, the budget includes a separate document, the Five-Year Capital Improvement Program (CIP) Budget. The CIP includes a detailed project sheet for every capital improvement project that is already in progress, or has been funded for the 2005/06 fiscal year.

The General Fund proposed budget is \$171,993,087 in expenditures including carryover appropriations from fiscal year 2004/05, which represents an all inclusive 13.3 percent increase over the previous year's budget. The General Fund is the single largest source of discretionary dollars available in a city.

## **Addressing Infrastructure, Deferred Maintenance, and Staff**

In my first year as City Administrator, the City Council, board and commission members, and the public vocalized the need to increase the city's commitment to infrastructure and deferred maintenance. The FY2005/06 budget provides a substantial allocation of funds to address the deficiency. Over \$5 million in General Fund money is proposed for capital projects, including tripling the city's commitment to trees, sidewalks, and water-ponding problems. This includes funding for a variety of drainage and flood projects, public building deferred maintenance, and public access and safety improvements in the public right-of-way. One million dollars of General Fund money is proposed for deferred flood and drainage equipment replacement.

On the operating side, the Council directed the restoring of eleven positions in the Police Department and three in the Fire Department. The budget funds two Sergeants, nine Police Officers, two Fire Marshals, and one Fire Protection Specialist. Twelve additional positions were added at that time. Five new, full-time positions are proposed in the General Fund, which include a Marine Safety Fleet Mechanic, Permit Technician (for building permit assistance), Contract Administrator, Parking Meter Repair Technician, and Facilities Maintenance Technician. The Cultural Affairs Supervisor was transferred to the General Fund from the Cultural Affairs Fund. A portion of two positions was added to increase work hours. These positions included: Police Communications Operator and Associate Traffic Engineer.

Additional operating funds are proposed to improve maintenance in downtown, the beach, and Shipley Nature Center. Finally, \$25,000 was added to the budget to cover the shortfall to Project Self-Sufficiency as a result of the CDBG public hearing that was held on July 18, 2005.

### **Budget Challenge and Issues for FY2005/06**

The challenge for FY2005/06 is to provide general services despite the second-year taking of nearly \$2.5 million by the State of California and the loss of \$5.8 million as a result of a recent Supreme Court decision to disallow the charging of a franchise fee (in-lieu) from one of our enterprise funds. Both losses negatively impacted the General Fund.

The loss from the state is the second-year loss of a two-year hit. As a non-recurring reduction to the General Fund, it is proposed to be funded with a one-time transfer from the Redevelopment Agency. Deferring the \$2.5 million repayment from the Redevelopment Agency that was slated for FY2004/05 to the FY2005/06 budget allows that loss to be covered. A transfer of \$2.5 million is included in this budget and was removed from the FY2004/05 budget.

The coverage of the \$5.8 million was more difficult to address. In the case of the Supreme Court decision, loss of revenue is ongoing with substantial long-term consequences for the General Fund. This loss required the baseline budget be dropped by \$5.8 million next year. The city's management team made a commitment to decrease expenditures without a visible loss in service to the public. This goal has been accomplished but will be monitored to ensure there is no loss in service to the public.

### **Closing Comments**

As for many of the past years, the preparation of the budget was difficult due to demands for service exceeding revenues. It is a delicate balance but one that can be done this year without an increase in city taxes or fees. While the budget does include the implementation of the cost allocation study recommendations, it does not include any fee increases, which will be addressed separately by the City Council.

I am cautious about this budget because of the tight budgeting necessary to drop our baseline budget to compensate for the loss in the enterprise fund transfer. Staff will be monitoring expenditures and department needs closely to make the expenditure plan work. Mid-year adjustments may be needed if service levels decline.

Department Directors are commended for their role in solving our operating deficit, resulting from the Supreme Court case decision. Their creative solutions have resulted in commitment by their staff to maintain another year of limited spending while meeting our service commitments.

I would also like to commend Finance Officer Dan Villella, John Roulette, Jennifer Lampman, Patti Fogarty, and Finance staff for their outstanding work in preparing the FY2005/06 budget. Special thanks to Paul Emery, Linda Daily, and Public Works staff for preparation of the CIP.

Sincerely,



Penelope Culbreth-Graft, DPA  
City Administrator





CITY OF HUNTINGTON BEACH

# Budget Summary

## Fiscal Year 2005/2006

### Introduction

The City of Huntington Beach annual budget is a blueprint for how your local tax dollars will be spent. It spells out the priorities for the municipal services and programs that you have come to depend on every day.

Just think about it. The water you use every morning, the park where you play sports, the paramedics who respond to an emergency in your neighborhood, the local public library you visit, the police officer patrolling the downtown, the streets you travel on, the community center where you attend a public meeting – these are only a few of the services provided by your city budget.

The budget is not just about dollars and cents. It's about your quality of life and about life in your community.

This budget summary includes a brief look at the City's budget revenues and expenditures. Detailed information can be found in the adopted Annual Budget for the fiscal year 2005 – 2006. A copy of the Annual Budget is available online at the City's website – [www.surfcity-hb.org](http://www.surfcity-hb.org), at the city libraries or by calling the Public Information Office at (714) 536-5577.

The City's budget focuses city resources on vital core services outlined through City Council priorities. The budget strives to:

- Cut costs and increase efficiencies wherever possible
- Balance residents' access to service and their ability to pay
- Maximize the available cost sharing opportunities with other levels of government (Federal and State)



- Ensure that anyone who has an interest in the city's budget has the opportunity to participate in the process.

The adopted fiscal year 2005/2006 budget is balanced. The projected revenue for the General Fund is \$161,581.630. An additional \$10.4 million of fund balance is being used to match the projected expenditures of \$171,993.087. This additional fund balance is the result of the city being successful in managing all funds in recent years and maintaining prudent spending policies.

The adopted Annual Budget recognizes modest growth in revenue that will enable the City to keep pace with increasing costs, inflation and an increased demand for city services. Fortunately, projected revenues have increased due to the economic climate and partial loan repayment by the State. The current economic outlook is positive in the upcoming fiscal year and the residents and businesses of Huntington Beach will receive the benefits of this upward movement.



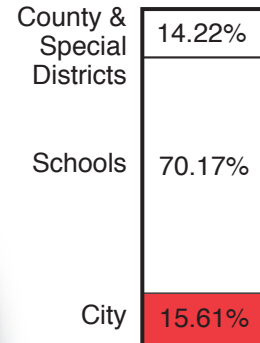
# General Fund Revenue - \$161,581,630

The General Fund will use \$10,411,087 of reserve fund balance for non-recurring expenses.

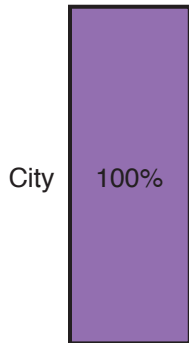
**Each Fees, Fines, and Charges dollar paid**



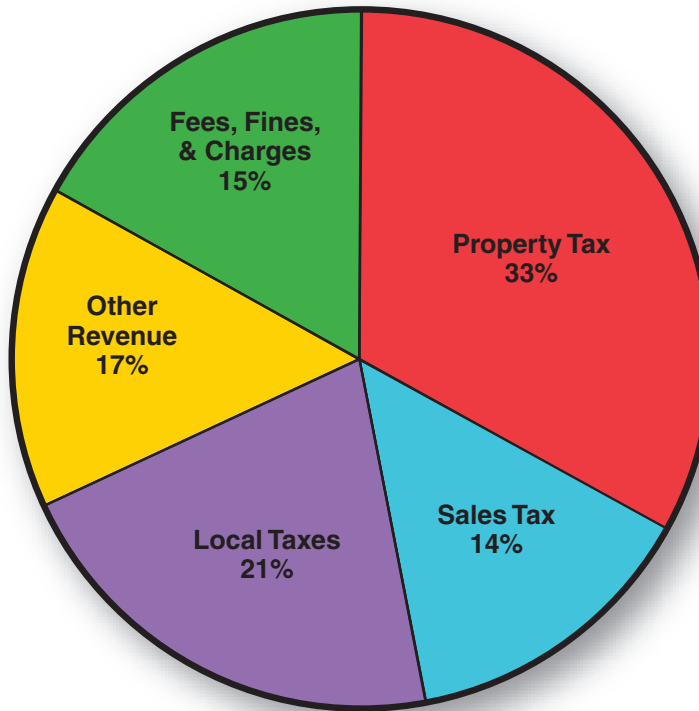
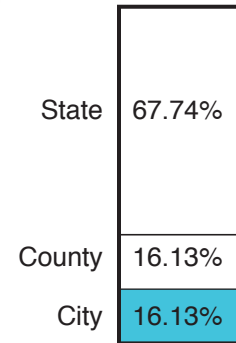
**Each Property Tax dollar paid**



**Each Local Tax dollar paid**



**Each Sales Tax dollar paid**



## Revenues

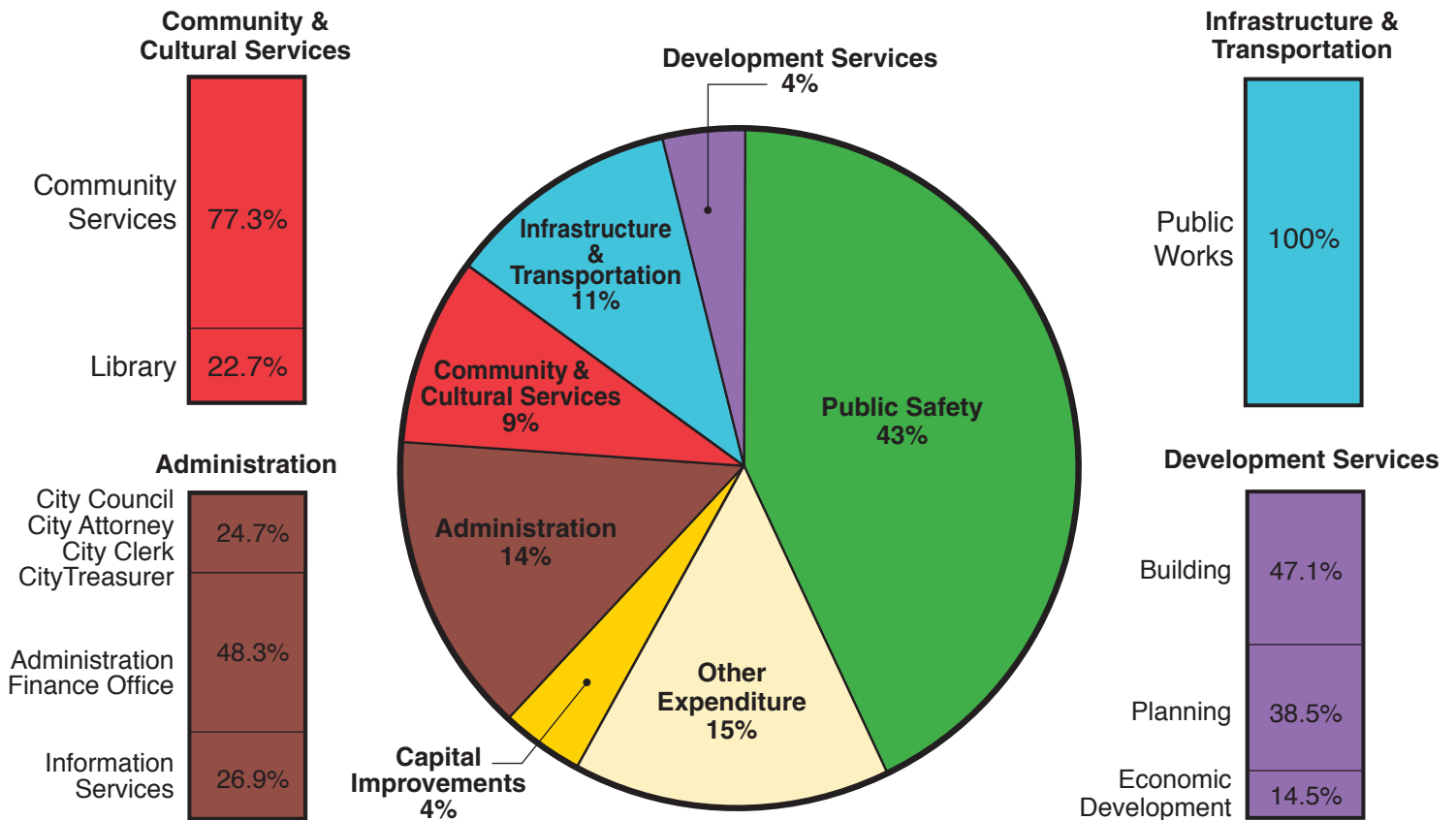
Revenues for the proposed FY2005/06 are projected to increase by 9.1% (compares 2005/2006 revenue to 2004/2005 adopted budget) over the current fiscal year. The principal revenue sources for the General Fund are:

- Property taxes
- Sales taxes
- License and permit fees
- Utility users taxes
- Revenue from intergovernmental agencies  
(includes gas tax exchange program for 2005/06)

### Important Notes:

- The city receives no direct revenue from income tax
- Local taxes include franchises, transient occupancy tax (TOT), utility users tax (UUT)
- Other revenue includes leases and concessions, parking revenue, revenue from other agencies, and transfers to the General Fund from other funds
- Through prudent budgeting and established financial policies, the city has accumulated reserves. Approximately \$10.4 million of these reserves are budgeted for various capital needs.

# General Fund Expenditure - \$171,993,087



## Expenditures

The city's expenditure objectives are highlighted in the city's Strategic Plan.

- Public Safety – Maintain a healthy and safe community.
- Fiscal Integrity – Establish a sound financial foundation based on expenditure controls that ensure the economic provision of services and reliable revenues sufficient to pay for city services.
- Infrastructure and Transportation – Assure the long-term adequacy of the city's infrastructure, facilities, and transportation network.
- Economic Development – Achieve development that maintains or improves the city's fiscal viability and reflects economic demands while maintaining and improving the quality of life for current and future residents.
- Organizational Development and Technology – Maintain and continually improve organizational effectiveness.
- Community Livability and Sustainability – Build and maintain livability, a sense of place and an exceptional quality of life within a sustainable urban environment.
- Enrichment, Communication, and Involvement – Ensure that Huntington Beach local government is open, accessible, responsive, nurturing, and respectful to all citizens it serves.
- Environmental and Natural Resources – Enhance the community's environmental quality and maintain its unique natural resources.



# City of Huntington Beach

## Budget Summary

### Fiscal Year 2005/2006

## Infrastructure

The infrastructure of the city is the underlying base or foundation of the community. It is comprised of streets, utilities, facilities, storm drains and parks used by residents, business and visitors. The City of Huntington Beach has a strong commitment to building and maintaining its infrastructure.

While the city has been allocating resources toward its infrastructure needs, many maintenance issues remain. To meet some of these deferred maintenance needs, the city has over \$45 million in new projects and improvements planned for fiscal year 2005/2006.

There are several significant projects planned for fiscal year 2005/2006. Some of these include the installation of new traffic signals at Newland/Hamilton, Beach/Taylor, Slater/Nichols, Graham/Heil and at Warner and the Warner Fire Station. Improvements to traffic signals, warning signs and bike lanes will be improved at Golden View, Mesa View and Ocean View Elementary Schools and Marine View and Isaac Sowers Middle Schools.

Other projects include removing and replacing overgrown street trees, damaged sidewalk and curb and gutters in the areas of Magnolia Street from Pacific Coast Highway to the Huntington Beach Channel and Edinger Avenue from Saybrook Lane to Countess Drive. Landscape improvements will be made to the median along the east side of Brookhurst, north and south of Yorktown Avenue and along the east side of Beach between Taylor Drive and Sterling Avenue.



Funding from the Gas Tax and Measure M grant funds will enable the City to rehabilitate several miles of arterial street segments including areas on Bolsa Chica, Slater, Graham, Springdale, Goldenwest, Garfield, Adams, Atlanta and Brookhurst.

## City Budget Overview

The general fund provides the majority of public services necessary to maintain a high quality of life residents can enjoy. The general fund accounts for only half of the total city expenditures. The remaining expenditures are in the enterprise, special revenue and fiduciary funds. These funds have specialized or restricted uses. Additional information and details about the city's use of the taxpayers' dollars is available in the complete budget document. Adoption of the Annual Budget is a long process and includes review by the Finance Committee, input from city departments, public review and input and final adoption by the City Council.



## Questions?

If you have any questions regarding information in this Budget Summary for the 2005/2006 fiscal year, please contact us.

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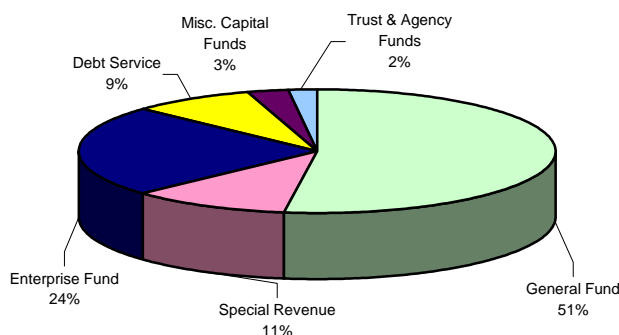
# Budget Message

The City of Huntington Beach's annual budget is fundamental to the effective management of the city. It serves as both a spending plan for the year and a communications document, outlining the city's programs and services. The adopted budget contains the tools and resources necessary to enhance vital programs, maintain a high quality of life for our residents, and take advantage of opportunities for growth and development.

The adopted FY2005/06 combined annual budget represents an increase of 6.9 percent, or \$21,136,221, over FY2004/05 for a total of \$329,122,806. An Estimated Fund Balance schedule for all funds has been included in this budget document.

The General Fund, which is responsible for supporting essential city services such as police, fire, marine safety, public works, and city administration, represents 52.3 percent of the total adopted budget. The adopted budget reflects the merging of the Capital Improvement Program (CIP) Fund into the General Fund. While similarly titled, the CIP Fund comprised only a small component of the Capital Improvement Program (CIP) and was funded primarily by transfers from the General Fund. To increase visibility, improve monitoring and accountability, and eliminate confusion between the CIP and the CIP Fund, the CIP Fund will be merged into the General Fund and designated as a Capital Improvement Reserve (CIR). This change results in a \$6,123,736 increase to the General Fund appropriations. The remainder of the budget represents a combination of various funds dedicated to specific purposes, including the Redevelopment Agency, Enterprise Funds, and grants. Figure 1 illustrates the breakdown by type of fund of the FY2005/06 adopted budget.

Figure 1. Total Budget by Fund Type



Fund Type	Adopted FY2005/06
General Fund	\$171,993,087*
Enterprise Funds	78,438,043
Special Revenue Funds	35,440,247
Debt Service	28,087,348
Misc. Capital Funds	8,620,045
Trust & Agency Funds	6,544,037
<b>Grand Total</b>	<b>\$329,122,806</b>

\* Includes the incorporation of the Capital Improvement Fund into the General Fund

The City of Huntington Beach organizes its resources into five types of funds: the General Fund, Special Revenue Funds, Enterprise Funds, Debt Service Funds, and Trust

& Agency Funds. These groups and their major revenue sources are described in the sections that follow.

Table 1. All Funds Expenditure Summary

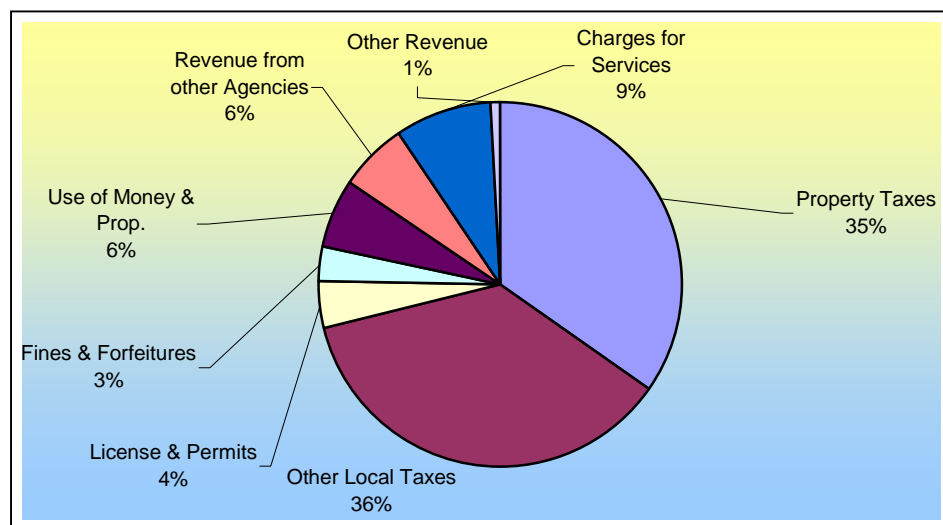
	<b>FY 01/02 Actual</b>	<b>FY 02/03 Actual</b>	<b>FY 03/04 Actual</b>	<b>FY 04/05 Adopted</b>	<b>FY 05/06 Adopted</b>
General Fund	\$141,100,913	\$143,940,182	\$156,811,436	\$151,832,636	\$171,993,087*
Capital Project Funds	68,859,386	36,381,305	36,898,321	11,213,190	8,620,045
Special Revenue Funds	28,957,455	20,691,981	14,554,120	33,148,543	35,440,247
Enterprise Funds	43,670,775	43,727,808	51,337,865	83,153,722	78,438,043
Debt Service	95,376,675	22,300,127	23,105,869	24,042,903	28,087,348
Trust & Agency Funds	2,379,430	25,351,202	14,055,773	4,595,591	6,544,037
Internal Service Fund	41,354,034	14,210,967	18,375	0	0
Totals	\$421,698,668	\$306,603,572	\$296,781,759	\$307,986,585	\$329,122,806

\* Includes the incorporation of the Capital Improvement Fund into the General Fund

### **General Fund**

The principal revenue sources for the General Fund are property taxes, sales taxes, license and permit fees, utility users taxes, and revenue from intergovernmental agencies. City financial policies require an allocation of seven percent of the adopted General Fund revenue to be held in a reserve account. For the adopted FY2005/06 budget, this reserve requirement is \$11,310,714 million.

Figure 2.  
General Fund  
Revenue by  
Type



Consistent with the goals and priorities of the city, the majority of the adopted expenditures focus on public safety, community services, and infrastructure needs. Table 2 highlights the appropriation requests by department, as well as their respective historical spending totals.

Table 2. General Fund Historical Expenditures by Department

Department	FY 02/03 Actual	FY 03/04 Actual	FY 04/05 Adopted	FY 04/05 Est. Actual	FY 05/06 Adopted
Administration	\$7,145,639	\$5,142,603	\$8,921,585	\$7,313,283	\$8,779,783
Finance Office	2,492,888	2,317,741	2,625,123	2,500,821	3,092,091
Building & Safety	2,566,513	2,829,817	3,182,133	3,259,320	3,622,238
City Attorney	2,837,218	2,771,391	3,094,992	2,325,772	3,071,966
City Clerk	555,269	712,342	854,985	678,607	877,471
City Council	268,924	280,104	279,960	253,934	299,601
City Treasurer	1,357,831	1,518,680	1,621,411	1,547,002	1,827,071
Comm. Services	9,311,474	10,350,467	10,861,162	10,727,171	12,187,994
Econ. Development	1,088,802	842,304	1,370,676	776,006	1,114,581
Fire	18,658,671	18,814,052	20,977,490	22,133,866	22,890,385
Library Services	3,653,111	2,958,184	3,223,366	3,125,762	3,581,478
Information Services	2,911,270	5,116,748	7,564,194	5,017,462	6,606,226
Non-Departmental	17,573,441	20,772,269	20,898,286	24,774,258	32,675,036
Planning	2,386,350	2,237,142	2,546,976	2,242,673	2,960,749
Police	40,888,941	39,553,490	46,129,484	45,147,603	49,001,286
Public Works	16,814,285	14,806,035	16,951,540	17,288,727	19,405,131
<b>Totals</b>	<b>\$130,510,627</b>	<b>\$131,023,369</b>	<b>\$151,103,363</b>	<b>\$149,112,269</b>	<b>\$171,993,087</b>

### ***Significant Changes***

One of the most significant changes reflected in the adopted budget is the dissolution of the Administrative Services Department. The duties of that department have been transferred into two different areas. One portion is now found under the heading of Finance Office. The functions related to human resources are now found under the heading of Administration.

All other significant changes are addressed in the department summaries.

### ***One Time Actions***

The General Fund has accumulated a substantial fund balance over and above its required reserve, including significant unspent FY2004/05 appropriations attributable to prudent fiscal management and vacancies. Due to budget restraints and cautious forecasting in previous years, departments were discouraged from purchasing new or replacement equipment. The result has been an overwhelming need for upgraded equipment in order to improve efficiency, decrease liability, and preempt the need for costly repairs.

The adopted budget allocates \$4,287,351 of this accumulated fund balance to support the departments' need for new equipment purchases and bring any obsolete equipment in line with current industry standards. This will allow the city to make a major contribution



toward its deferred maintenance of public rights-of-way, public buildings, and equipment inventory.

The adopted FY2005/06 budget contains revenue estimates of \$161,581,630, which is sufficient to cover the operating appropriations request of \$171,993,087 when combined with a contribution of \$10,411,087 from the existing fund balance for one-time, non-recurring expenses. The adopted revenue represents an increase of 9.2 percent over FY2004/05. Included in the adopted budget is the re-budget of a \$2.5 million transfer from the Redevelopment Agency to the General Fund originally designed to offset the loss of VLF revenue from the state. This money was originally budgeted in FY2004/05, but due to managed savings of expenditures was not needed during that fiscal year. Due to the loss of revenue (\$5.8 million) associated with the water in-lieu fee, resulting from the Supreme Court decision in Howard Jarvis v. City of Fresno, the \$2.5 million is needed in FY2005/06 to cover the second year take away by the state. Details of this court case are discussed in the Court Decisions section of this message.

Table 3. Historical General Fund Revenue by Type

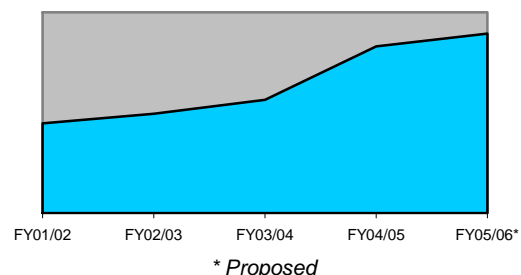
Revenue Source	FY02/03 Actual	FY03/04 Actual	FY04/05 Adopted	FY04/05 Est. Actual	FY05/06 Adopted
Property Tax	\$ 29,688,213	\$33,798,795	\$49,870,065	\$48,971,060	\$53,700,000
Other Local Taxes	56,036,611	60,991,423	55,619,200	59,595,546	56,046,000
Licenses & Permits	6,531,965	7,732,499	6,722,577	7,438,511	6,613,614
Fines & Forfeitures	3,814,676	4,341,584	5,110,419	4,372,095	4,829,150
Use of Money & Property	10,825,516	8,923,749	8,305,100	10,067,760	9,413,600
From Other Agencies	10,885,557	10,146,274	3,108,404	6,840,772	9,534,279
Charges for Services	9,184,034	11,164,650	10,064,326	10,778,114	13,320,066
Other Revenue	1,245,792	(362,438)	311,000	3,135,381	1,171,000
Non-Operating	4,346,242	4,870,404	8,868,721	6,471,103	6,953,921
GASB 34 Adjustment	(26,884,866)	0	0	0	0
<b>Totals</b>	<b>\$105,673,743</b>	<b>\$141,606,938</b>	<b>\$147,979,812</b>	<b>\$157,670,342</b>	<b>\$161,581,630</b>

### *Property Tax*

Property taxes are levied at the statewide general property tax rate of one percent of assessed value, with a maximum adjustment of two percent per year based on inflation.

Property tax revenues have steadily increased in recent years due to increases in housing prices countywide. In FY2005/06, property tax revenue is expected to increase over the FY2004/05 budget by \$3,829,935, or 7.68 percent, for a total of \$53,700,000.

Figure 3. Property Tax Growth Over a Five-Year Period



### *Utility Users Tax*

A Utility Users Tax of five percent is imposed on consumers of telephone, electricity, gas, water, and cable television



services within the city limits. The Utility Users Tax (UUT) is the city's third highest revenue generator for the General Fund and is projected to increase by 6.2 percent in FY2005/06 over the revised FY2004/05 budget, bringing in an estimated \$20.87 million to the General Fund.

### ***Sales Tax***

Sales and Use Taxes are imposed on retail transactions and are collected and administered by the California State Board of Equalization. The City of Huntington Beach realizes 0.75 percent of total taxable sales generated within the city. For FY2005/06, sales tax revenue is projected to increase by five percent over the current fiscal year for a total projection of \$22,538,000.

### ***Transient Occupancy Tax***

The Transient Occupancy Tax (TOT) is imposed on lodging facilities such as hotels and motels. The city's current tax rate is set at a rate of ten percent for the use of a room in a hotel or other lodging facility. The TOT is projected to increase by 73 percent to \$5,589,000 in FY2005/06.

### ***Vehicle License Fee***

The Vehicle License Fee (VLF) is collected by the state in-lieu of personal property taxes on vehicles. In recent fiscal years, VLF revenue received from the state was reduced due to the state's budget crisis. The state originally pledged repayment of a portion of the reduced revenue in August of its 2006/07 fiscal year. However, given receipt of higher than anticipated revenue, the state was able to make these payments in 2005/06. While the FY2005/06 budget includes \$4.8 million in estimated revenue from the state, \$3.3 million of that revenue could be realized in our 2004/05 fiscal year because of the difference in the state and city's fiscal year.

### ***Licenses and Permits***

Licenses and permits generate revenues for a wide variety of activities such as business licenses, parking permits, and building-related permits. The most significant revenue sources from the licenses and permits category are the Business License and the Building Permit Fee. Licenses and permits comprise approximately four percent of the General Fund revenue and total \$6,613,614 for FY2005/06.

### **Enterprise Funds**

The City of Huntington Beach maintains five enterprise funds: Water, Water Master Plan, Sewer Service, Refuse, and Emergency Fire Medical. The expenditures allow for the operation of essential services and maintain the city's commitment to protecting public health and safety. The rates charged to consumers for these services cover the current cost of operations, and the maintenance and financing of necessary capital assets.

Enterprise Fund expenditures for FY2005/06 total \$78,438,043, representing a 6.0 percent decrease from FY2004/05. The reason for the decrease in the Water Fund was because the city could no longer levy the in-lieu fee as a result of the court decision mentioned earlier. Consequently, the expenditures for the Water Fund were reduced by \$5.8 million.

The adopted Water Master Plan budget is less than last year due to the type of projects programmed. While the FY2004/05 capital projects included the completion of a reservoir, well, and water transmission main improvements, projects adopted for FY2005/06 include primarily pipeline corrosion control and lining. Approximately \$8 million in construction-in-progress will be carried forward into the new budget year.

Table 4. Historical Expenditures for Enterprise Funds

	<b>FY 02/03 Actual</b>	<b>FY 03/04 Actual</b>	<b>FY 04/05 Adopted</b>	<b>FY 04/05 Revised</b>	<b>FY 05/06 Adopted</b>
Water	24,415,100	25,952,552	38,298,727	39,192,299	35,634,033
Water Master Plan	691,773	4,162,868	7,128,000	19,648,477	8,121,809
Sewer Service	3,654,302	4,017,939	18,289,337	19,911,554	14,582,494
Refuse Collection Service	9,537,775	9,653,493	9,878,733	9,884,689	10,452,600
Emergency Fire Medical	3,847,836	5,788,497	6,663,855	7,320,478	7,610,478
Other Enterprise Funds	1,581,022	1,762,516	2,895,070	3,088,411	2,036,629
<b>Totals</b>	<b>43,727,808</b>	<b>51,337,865</b>	<b>83,153,722</b>	<b>99,045,908</b>	<b>78,438,043</b>

### **Special Revenue Funds**

Several funding sources are restricted legally to a specific purpose, particularly in the area of infrastructure.

The Gas Tax Fund and Transportation Fund (Measure M) receive revenues based on gasoline sales and county sales tax, with expenditures limited to street and transportation improvements within the public right-of-way. Huntington Beach is projected to receive \$7.2 million for FY2005/06 for the Gas Tax Fund and \$2.3 million in Measure M monies.

Additional special revenue funds include the Sewer, Drainage, Traffic Impact, Park Acquisition and Development, Air Quality, and Library Services Funds. The first four are directly attributable to development fee revenue. The latter two are restricted to projects for reducing air emissions and renovation of the Central Library, respectively.

Special Revenue Funds revenues for FY2005/06 total \$35,440,247, representing a 6.9 percent increase from FY2004/05.

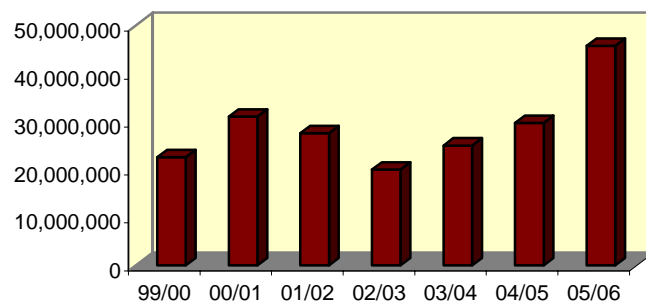
### **Capital Improvement**

The purpose of the five-year Capital Improvement Program (CIP) is to identify the major public improvement projects in progress or adopted for FY2005/06. Often these projects span several fiscal years and require the collaboration of several city departments. The

portion of the CIP scheduled for FY2005/06 totals \$45,810,625, which is funded through grants, Enterprise Funds, and Special Revenue Funds such as the Gas Tax and Measure M Funds, and the General Fund. The adopted CIP represents an increase of 54 percent over the current fiscal year due to a large number of successful grant applications for Measure M monies, an increased transfer from the General Fund, and the use of revenues from previous fiscal years.

Major projects for the upcoming fiscal year include the remodel and refurbishment of the Central Library; maintenance of residential sidewalks, concrete, and street trees; Warner gravity sewer main; and, various arterial highway rehabilitation projects. The adopted CIP is published as a separate document with detailed project and funding information.

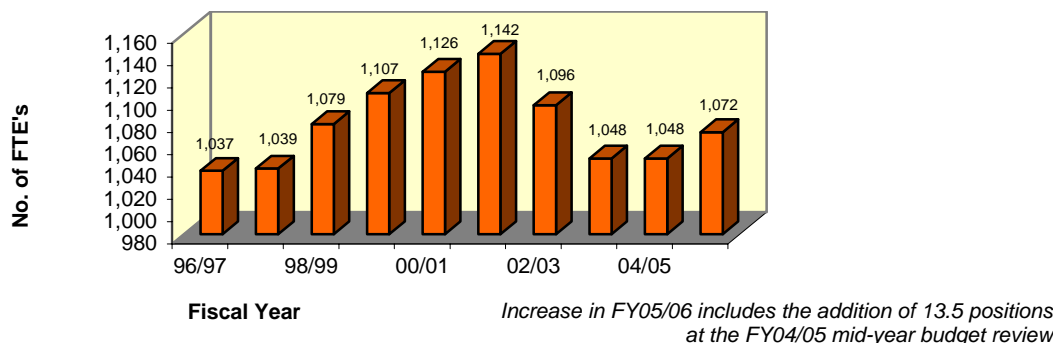
Figure 4. Total Budget of Capital Improvement Projects



### *Personnel Resources*

The adopted budget includes a total of 1,071.75 full-time equivalent (FTE) positions, with 930.68 FTE positions funded within the General Fund. This figure represents an increase of 24.25 positions over FY2004/05. The majority of these positions were added during the mid-year budget review for FY2004/05 and are attributable to a moderate, positive economic outlook and an increased demand for city services. Major changes in personnel include the elimination of the Assistant City Administrator and Director of Administrative Services positions and the subsequent creation of two Deputy City Administrator positions, which occurred mid-year in FY2004/05 and will be accounted for the first time in the adopted budget. Information regarding other personnel changes is included in the impacted department summary.

Figure 5. Historical Budgeted Full-Time Positions (FTE)



## ***Unfunded Liabilities***

As shown in the city's latest Comprehensive Annual Financial Report, the city has three post retirement benefit unfunded liabilities. The Public Employee Retirement System (PERS) contract for safety employees (\$50,132,000), the Retirement Supplement Plan (\$29,042,000), and the Retirement Medical Subsidy (\$6,677,000). These amounts come from the most recent actuarial studies, with results of new studies to be received in late 2005.

The Safety PERS plan is outsourced to CALPERS. A change in the benefit formula and changes by PERS in its actuarial assumptions have resulted in a substantial increase in liability to the city over the past few years. After under-performing its assumed investment rate of return (7.75 percent) for a number of years, CALPERS has averaged more than 14 percent for the two most recently completed years. This is likely to result in a reverse in the liability in the future. These types of fluctuations can be expected within short periods of time, as PERS has historically exceeded its expected rate of return for the last fifteen- or twenty-year periods. The contract requires that the city pay PERS the actuarially-determined amount calculated as a percentage of our payroll. These payments are contained in this budget. Approximately 46 percent of our employer payment for safety employees will go toward reducing the unfunded liability. The safety employees pay approximately 16 percent of the 46 percent through deductions from their paycheck.

The Retirement Supplement Plan is not outsourced, however, an actuary determines the amount the city should set aside each year for this plan. The actuarial amount is included in this budget. Approximately 72 percent of this payment goes towards reducing the unfunded liability. Because this plan is not provided to employees hired after 1997, liability is reduced through the budgeted payments and the mortality of the participants.

The Medical Subsidy Plan is also maintained by the city, with the actuarial required payment included in the budget. Approximately 49 percent of the payment will go toward reducing the unfunded liability.

## ***State Budget***

In 2004, local governments agreed to a two-year property tax revenue reduction and shift to the state in exchange for support of Proposition 1A, a voter-approved ballot measure that now offers protection to local governments from future state revenue losses. FY2005/06 marks the second year of the two-year agreement with the state and represents a loss of \$2,485,043.

The state's proposed FY2005/06 budget represents a dramatic change from recent years regarding the level of support for local government. During its FY2003/04, the state withheld three months of VLF backfill revenues from its normal distribution to cities. During that time, the consumer fee that had been restored from 0.67 percent to two percent was rescinded and refunded to consumers, with the state backfill restored beginning with the fourth month of the fiscal year. The three months of lost revenue to cities, or "gap loan," was pledged by the state to be repaid by August 2006. The recently

adopted state budget promises funding to repay this loan to cities during its 2005/06 fiscal year. The exact timing of the loan payment is unclear at this time but could equate to receipt of this money in the current fiscal year given the overlap between the two fiscal calendars. While this gap loan repayment will add \$3,339,805 to the General Fund's cash flow during FY2005/06, it represents only 40 percent of the over \$8 million the state has withheld from the city over this three-year period.

### ***Court Decisions***

Rulings in recent court cases have had significant impacts on the City of Huntington Beach's adopted budget. In *Howard Jarvis v. City of Fresno* (2005), it was determined that under certain circumstances an in-lieu fee charged to the utility fund may be contrary to the provisions of Proposition 218. In particular, Proposition 218 states that utility revenues may not be used for "general government services, including, but not limited, to police, fire, ambulance, or library service" and may not "exceed the funds required to provide the service." As the City of Huntington Beach's current fee structure does not include a detailed breakdown of the in-lieu fee, the city is suspending that portion of the in-lieu charge that exceeds the city's cost of providing the service as determined by the Cost Allocation Plan. For FY2005/06, this suspension equates to a loss of \$5,845,000 in revenue to the General Fund.

### ***Economic Outlook***

Growth and development of the City of Huntington Beach mirrors that of Orange County and Southern California and is projected to continue in a positive trend for several years. According to the California State University Fullerton's Midyear Economic Forecast, "housing prices in Orange County continue to set records, though the rate of increase has declined since May 2004." Payroll for the county is expected to increase by a rate of 2.1 percent for 2006 compared to a rate of 1.9 percent for the Southern California region as a whole.

In Huntington Beach, large projects such as the Hyatt Resort & Convention Center, Bella Terra, and newly developed shopping centers are now complete or nearing completion and will contribute revenue in the form of transient occupancy taxes and sales tax. Other developments such as The Strand and Pacific City, which are scheduled to be completed within the next couple of years, will also add sales and property tax revenue to the General Fund. They will also increase the appeal and vitality of the city's downtown tourist areas.

### ***Future Considerations***

The adopted budget document is based on information and rates that have been adopted by the City Council. There are two important issues to be addressed in the future that could substantially impact annual budgets.

The first issue is the presentation of the new fee study to the City Council later this Fall. While the budget does include the results of the recently completed cost allocation plan,

user fees have not been adjusted, pending the Council's decision, regarding how much general tax revenues should subsidize various services and which should be self-supporting.

The second issue is the city's property tax rate. The City Charter authorizes the City Council to levy a retirement tax. The Attorney General has approved the city's methodology in calculating an acceptable tax rate that does not violate Proposition 13 or fund enhanced retirement benefits granted after the voters approved the tax in 1978. The City of Huntington Beach levied the tax at a rate of .00696 for FY2004/05, and adopted the same rate for FY2005/06. In the future, the Council could increase the rate to approximately .0300, if it so chooses. While this increase was not needed to balance the budget, a future increase to this tax rate would generate an additional \$6,300,000, which could then be used towards enhanced services, infrastructure, or reduction of unfunded liabilities.

## Introduction to Department Budget Sections

The following portion of the budget is dedicated to the department budgets.

There are three components to each department:

1. Organization Chart – Lists the divisions of the department with the full time equivalent, permanent positions assigned.
2. Department & Division Descriptions – Provides a narrative of the department's mission and activities.
3. Budget Data and Personnel Listing – There are, potentially, 4 formats, which display budget and personnel data.
  - a. The yellow highlighted "Department" page shows funds by object account. This page depicts all funds associated with the department in expenditure object account summary.
  - b. The green highlighted "Division" page shows budgets for the various department divisions within the General Fund.
  - c. The orange highlighted "Other Funds" page depicts various individual funds, or groups of selected funds as noted, within the budgetary authority of the department.
  - d. The blue highlighted "Business Units" page shows all business units under the budgetary authority of the department.